

**Board of Governors of the Federal Reserve System**

**REPORT ON THE  
AUDIT OF THE BOARD'S  
PROCUREMENT AND CONTRACT  
MANAGEMENT PROCESS:  
CREDIT CARD PURCHASES**



---

**OFFICE OF INSPECTOR GENERAL**

---

June 1996

Mr. S. David Frost  
Staff Director for Management

We are pleased to present our final *Report on the Audit of the Board's Procurement and Contract Management Process: Credit Card Purchases* (A9507-B), the first of two reports resulting from our audit of the Board's acquisition process. We reviewed the Board's credit card program for small purchases to determine whether the program was effectively used and whether controls over credit card purchases were sufficient.

Overall, we commend the Board for implementing the credit card program. The program offers significant advantages by allowing employees to make small purchases in a timely manner and by eliminating the paperwork normally required to prepare purchase requisitions and purchase orders. We believe, however, that opportunities exist for the Board to maximize the benefits associated with, and strengthen the controls over, the credit card program. Our report contains five recommendations to increase the use of credit cards for small purchases and to strengthen controls over delegations of authority, reconciliation procedures, receipt of goods, and employee separation procedures.

We provided a draft of this report to you and the Director of the Division of Support Services (SS) for review and comment. The Director of SS provided us with a response which has been included as appendix 1. The response indicates agreement with three of the five recommendations and cites actions which, if implemented, will satisfy the intent of a fourth recommendation. The director did not agree with our recommendation to require card holders to notify the Supply Section when items have been ordered and will be centrally delivered and stated that this requirement will create an inordinate amount of paperwork without solving the underlying problem. As discussed in our analysis of comments, we continue to believe that notifying the Supply Section via electronic mail is a simple step to help ensure items are delivered to the intended recipient.

A copy of this report is being sent to the Administrative Governor and to heads of the Board's offices and divisions. The report is available to the public, and a summary will appear in our next semiannual report to Congress. We plan to follow-up on implementation of our recommendations and will report any exceptions as part of our future audit activities.

Sincerely,

Barry R. Snyder  
Assistant Inspector General for Audits

## TABLE OF CONTENTS

	Page
BACKGROUND .....	1
OBJECTIVES, SCOPE, AND METHODOLOGY .....	2
FINDINGS AND RECOMMENDATIONS .....	2
ANALYSIS OF COMMENTS .....	7
APPENDIXES .....	9
Appendix 1 - Director's Comments .....	11
Appendix 2 - Principal OIG Contributors to This Report .....	15

# BACKGROUND

In 1995, the Board of Governors of the Federal Reserve System (the Board) adopted a program to use credit cards for small purchases. The program's objectives were to improve procurement timeliness and to lower procurement costs by reducing the bureaucracy and paperwork associated with the acquisition process. Credit card use was also intended to reduce the workload on the Division of Support Services' (SS's) Procurement Section, allowing the section's personnel to focus on more significant acquisitions.

The Board's credit card program is part of the General Services Administration's (GSA's) Governmentwide Commercial Credit Card Program. GSA contracted with Rocky Mountain BankCard System (RMBCS) to provide commercial credit cards and services to authorized employees in participating agencies. RMBCS provides participating agencies with Visa cards that carry the logo IMPAC™ (International Merchant Purchase Authorization Card), which they can use to make official government purchases.<sup>1</sup> The cards may not be used for cash advances, rental of land or buildings, or purchases of telecommunication (telephone) services. Currently, more than fifty government agencies are participating in the program.

The Procurement Section manager serves as the focal point for the Board's credit card program, acting as liaison between the Board, RMBCS, and GSA. Each Board division and office initiates its own request for credit cards, identifying the individuals authorized to use the cards and the appropriate dollar limits. Credit card holders are subject to a dollar limit on a single purchase as well as an overall monthly limit. Most credit cards held by Board employees carry a \$500 single-purchase limit and a \$2,500 monthly limit, although limits may run as high as \$5,000 for a single purchase or \$50,000 for a monthly aggregate.

The Board's Acquisition Policy provides streamlined acquisition procedures for purchases under \$2,500 (also known as micropurchases). Micropurchase procedures also apply to credit card acquisitions under \$2,500 and allow card holders to procure goods without soliciting competitive quotations if the price is considered reasonable. In addition, formal bidding procedures, negotiated procurement procedures, and the small business preference do not apply to purchases made by a credit card. For purchases over \$2,500, competitive quotations are still required.

Credit card purchases do not require submission of a purchase request by division personnel or creation of a purchase order by the Procurement Section. Instead, the credit card holder may make a purchase in person or over the telephone; the goods are delivered

---

<sup>1</sup>IMPAC™ is a registered trademark of RMBCS.

directly to the individual or to the Board's central receiving point. According to the Board's *Internal Operating Procedures for Commercial Credit Cards* (the *Operating Procedures*), card holders should retain adequate documentation—either a charge slip (for over-the-counter purchases) or a transaction log with associated shipping documents (for telephone purchases)—whenever they make a purchase using the credit card.<sup>2</sup> RMBCS sends monthly billing statements directly to the cardholder. The card holder reconciles the information on the monthly statement with the appropriate supporting documentation before forwarding the statement to the Board's Office of the Controller (OC) for payment.

As of March 1996, fifty credit cards had been issued to Board personnel. Net purchases using credit cards totaled \$136,400 for the period September to December 1995 (the first four months during which purchases were made) and \$143,200 for the period January to March 1996.

## OBJECTIVES, SCOPE, AND METHODOLOGY

We reviewed the Board's credit card program for small purchases as part of our overall audit of the Board's procurement and contracting practices to determine whether the program was effectively used and whether controls over credit card purchases were sufficient.<sup>3</sup> Our audit fieldwork was conducted from November 1995 through April 1996 and included a review of purchases made and procedures in place during 1995 and 1996. We examined supporting documentation for a judgmentally selected sample of purchases, invoices submitted by RMBCS for payment, and monthly reconciliations prepared by individual card holders. We interviewed SS procurement staff, OC personnel, and credit card holders in several Board divisions. Our audit was conducted in accordance with generally accepted government auditing standards.

## FINDINGS AND RECOMMENDATIONS

Overall, we commend the Board for participating in the IMPAC™ program. We believe the program offers significant advantages by allowing employees to make small purchases in a timely manner and by eliminating the paperwork normally required to prepare purchase requisitions and purchase orders. The program also facilitates cash management through improved and more consistent reporting on small purchases.

---

<sup>2</sup>The *Operating Procedures* are based on GSA's *Sample Agency Internal Operating Procedures*.

<sup>3</sup>See our *Report on the Audit of the Board's Procurement and Contract Management Process*

We believe, however, that opportunities exist for the Board to maximize the benefits associated with, and strengthen the controls over, the credit card program. As discussed in the following recommendations, we believe that an expanded program and improved internal controls will result in greater procurement efficiencies and effectiveness.

**1. We recommend that the Staff Director for Management amend the Board's Acquisition Policy to stress the use of credit cards for purchases less than \$2,500.**

In 1993, the National Performance Review (NPR), headed by Vice President Gore, noted that managers should be able to acquire necessary items without going through a procurement office and that a commercial credit card service was a more efficient procurement method. The NPR report cited improved timeliness and cost savings as specific reasons to expand credit card use throughout the federal government. The report noted that use of a credit card instead of a purchase order could reduce administrative costs by an amount between \$29 and \$227 per transaction. Some agencies have used \$54 per transaction as a conservative estimate of potential savings from credit card use.

During 1995, the Board processed approximately 8,800 purchase order line items of less than \$2,500 each, according to data provided by the OC. Items acquired through these transactions included office supplies and equipment and personal computer hardware and software, much of which could easily be purchased by credit card rather than the standard purchase order process. During our audit, we also noted that at least one government organization had mandated the use of credit cards for all purchases less than \$2,500, except for recurring services or sole sources that will not accept the credit card. While credit cards may not be appropriate for every small purchase, we believe that increased use of the cards, including increased numbers of individuals authorized to use a card, will (1) improve customer satisfaction by enabling users to acquire goods and services faster and with less bureaucracy, and (2) allow the Procurement Section to focus its resources better by reducing the Section's workload. The Procurement Section manager stated that, since the credit card program was implemented, his section has realized a reduction in the volume of small purchase requests that will enable him to use his manpower more efficiently.

We recognize that expanded use of the credit card may require a paradigm change throughout the Board, because the program represents a new way of doing business, and card holders may feel they are performing functions traditionally performed by the Procurement Section. However, we believe that the efficiencies gained through more timely and streamlined acquisitions offset the costs of educating new card holders on the merits of the credit card program. Using the conservative estimate of \$54 per transaction, the Board could potentially save, or use for other purposes, more than \$237,000 in administrative costs if even half of the 8,800 transactions were conducted using credit cards.

**2. We recommend that the Director of SS formally delegate procurement authority for credit card purchases to card holders and ensure that they are adequately trained in their responsibilities.**

The Board's Acquisition Policy states that individuals delegated the authority to use credit cards are considered to be contracting officers and, as such, have authority to obligate the Board through a credit card transaction in the same way the Board's contracting officer can obligate the Board through a contract or purchase order. The *Operating Procedures* charge the Director of SS or his designee with delegating purchasing authority to credit card holders and provide an example of a "delegation of authority" form. We found, however, that formal delegations of procurement authority were not being made to credit card holders, the delegation form shown in the *Operating Procedures* was not being used, and no alternative method of formally delegating procurement authority had been implemented. Instead, the Procurement Section manager told us he was providing card holders with a copy of the *Operating Procedures* and with oral instructions concerning their responsibilities.

We believe that the authority to procure goods and services should be formally delegated from the Director of SS, or his designee, to the credit card holders. Oral delegations of authority do not adequately ensure that card holders are consistently informed about their responsibilities when using the card, including any spending and usage limitations unique to each card holder. We believe that the use of a formal delegation form, as envisioned by the *Operating Procedures*, would more clearly define responsibilities to individual card holders, reinforce accountability for the cards, and help eliminate misunderstandings regarding the cards' purpose and use.

In addition to implementing the formal delegation form, the Director of SS should ensure that new card holders receive adequate training in the credit card program. The Acquisition Policy states that individuals issued credit cards will receive formal training in how to use the cards appropriately. The Board has drafted a Procurement Integrity Policy to ensure that all Board employees involved in procurement activities have certified that they are aware of the sensitive issues involved in procurement. The draft policy envisions that such employees, to include credit card holders, will attend a training course covering the procurement process and ethical issues, and that credit card holders will receive additional training relating specifically to the use of credit cards.

Whereas the initial group of card holders was required to attend a training session on credit card usage when the cards were first issued, the formal training was discontinued, and individuals subsequently receiving credit cards were provided only oral instructions by the Procurement Section manager. We found that questions have surfaced in areas that may not have been fully addressed in either the formal training or the oral briefing. For example, some card holders were uncertain about various aspects of the program, such as

if or how many competitive quotes were required for credit card purchases.

Understanding the competition requirements is an important aspect of the credit card program. Several card holders have single-purchase limits in excess of \$2,500—the upper limit for micropurchase procedures—and we believe the number of individuals with limits over \$2,500 will continue to grow as the credit card program expands. We believe that a more formal training program, to include refresher training as necessary, will help ensure that card holders understand and carry out their responsibilities consistent with their delegated authority.

**3. We recommend that the Director of SS clarify the *Operating Procedures* to ensure that credit card reconciliations are independently verified before they are sent to OC for payment.**

The *Operating Procedures* provide guidance to card holders on reconciling the monthly credit card bills from RMBCS but do not clearly specify who should independently review the card holder's reconciliation. The *Operating Procedures* discuss an approving official, who can be the card holder's immediate supervisor or a higher-level official and who is responsible for reviewing the card holder's monthly statement and supporting documentation to ensure that purchases are made in accordance with Board policies. The approving official is also required to sign the card holder's monthly statement of account and forward the statement to OC for payment. However, another section of the *Operating Procedures* states that the card holder should reconcile the information on the statement and forward the statement to OC. This paragraph does not discuss an independent review by a division-level approving official.

Our review of reconciliation procedures for eight credit card holders (all in different divisions) showed that five card holders obtained the signature of a higher-level division official on their reconciliation before forwarding it to OC for payment, while three card holders did not obtain any independent verification within their own division and forwarded their statement directly. The Procurement Section has notified RMBCS that an individual in the OC is the approving official for all credit card bills. The *Operating Procedures* state that the OC is the final approving official but provide no guidance regarding the responsibilities associated with this position. The individual in the OC reviews all credit card bill reconciliations, whether or not the reconciliation has already been reviewed by someone in the card holder's division; however, she does not examine any of the supporting documentation because it is maintained in the card holder's division.

We believe that a review by an approving official is an appropriate internal control and that the review responsibility is best performed in the card holder's division. Division officials have the greatest knowledge of whether goods were actually acquired and whether a procurement was appropriate; OC staff are too far removed from the process to provide an adequate internal control. Performing the review in the card holder's division



would also be in keeping with GSA's *Sample Agency Internal Operating Procedures*, which provide for a review by the card holder's approving official before the statement is forwarded to the designated billing office.

**4. We recommend that the Director of SS revise the *Operating Procedures* to require credit card holders to notify the Supply Section when items have been ordered and will be centrally delivered.**

Credit card purchases may be delivered directly to the person placing the order or to the Supply Section in SS. The *Operating Procedures* direct card holders to instruct vendors to include the card holder's name, address, and telephone number on the shipping document or packing slip to ensure that items are delivered to the appropriate office. In spite of this guidance, the Supply Section manager told us that items often arrive without the name or office of the person to whom the goods are to be delivered. The manager stated that Supply Section personnel attempt to contact the individual they believe may have ordered the item and, if they are unsuccessful in locating the correct recipient, will wait until they are contacted by the person who placed the order. This can result in delays in receiving the goods and may cause items to be delivered to someone other than the intended recipient.

We believe that the Director of SS should revise the *Operating Procedures* to require card holders to notify the Supply Section via electronic mail when an item is ordered that will be delivered to the Supply Section. This approach would eliminate the requirement for Supply Section personnel to locate intended recipients without adding an unnecessary burden to the credit card process. It would also help the Supply Section meet its current-year objective of improving the receipt and delivery of materials from vendors. Of course, our recommendation is not a substitute for periodically reminding card holders of their responsibilities to instruct vendors about the proper information to include on shipping documents.

**5. We recommend that the Director of SS request that the Director of the Board's Division of Human Resources Management (HRM) revise the Employee Separation Form to help ensure that separating employees return Board credit cards.**

The *Operating Procedures* provide that card holders must surrender their card when separating from Board service. The card is to be surrendered either to an official in the employee's division or to the Procurement Section manager. However, the Board's Employee Separation Form, a checklist designed to make separation from the Board smooth and efficient while ensuring that all Board property is returned, has not been amended to cover the return of credit cards. We believe this requirement needs to be

added to the form to help prevent the potential inappropriate use of the cards by separated employees.

## ANALYSIS OF COMMENTS

We provided draft copies of this report to the Staff Director for Management and the Director of SS for their review and comment. The Director of SS's response is included as appendix 1 to this report (see page 11).

The Director of SS concurred with three recommendations and disagreed with two. Specifically, the director agreed to promote the use of credit cards whenever possible (recommendation 1) and in June 1996 notified the divisions that single purchase and monthly limits are increased for all card holders. The director also agreed to formally delegate procurement authority and conduct refresher training courses for all card holders (recommendation 2) and to request that HRM revise the Employee Separation Form to include a check-off for recovering credit cards from separating employees (recommendation 5).

While the director disagreed with our recommendation to clarify the *Operating Procedures* to ensure that credit card reconciliations are independently verified before being sent to OC for payment (recommendation 3), he has already sent a memorandum notifying division directors that they must appoint a responsible individual to review monthly credit card statements before forwarding them to OC for payment. We believe that SS's action and the divisions' associated compliance with this requirement will satisfy the intent of the recommendation. The director also does not agree that the *Operating Procedures* should be modified to require card holders to notify the Supply Section when items have been ordered and will be centrally delivered (recommendation 4). In his response, the director stated that requiring card holders to notify the Supply Section for every purchase would create an inordinate amount of paperwork without solving the underlying problem. Our recommendation is specifically directed to those credit card purchases that are centrally delivered to the Supply Section and we continue to believe that notifying the Supply Section via electronic mail about these purchases is a simple step to help ensure items are delivered to the intended recipient. As stated in the report, this recommendation is not a substitute for periodically reminding card holders of their responsibilities to instruct vendors about the proper information to include on shipping documents. Implementing the recommendation would also compensate for omissions made by vendors even though card holders had provided the necessary information.

We also discussed the draft report with the Staff Director for Management. He concurred with the Director of SS's response and stated that he has revised the Acquisition Policy to emphasize that credit cards should be used to the maximum extent possible within the card holder's authorized limit.